

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 INT-05 L-03 H-02 DODE-00 PA-02

PRS-01 FEA-01 /103 W

-----026691 010841Z /20

R 010700Z AUG 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 2797

UNCLAS JAKARTA 10132

EO 11652: NA

TAGS: EIND, EMIN, ID

SUBJ: PRESIDENT SUHARTO INAUGURATES STEEL FACTORY

1. SUMMARY: JULY 27 PRESIDENT SUHARTO INAUGURATED THE STATE-OWNED STEEL PROJECT P.T. KRAKATAU STEEL. PHASE I OF HIS PROJECT IS NOT DUE FOR COMPLETION UNTIL 1979, AND INAUGURATION MARKED COMPLETION OF REINFORCING BAR MILL AND STEEL ANGLE MILL. KRAKATAU PROJECT HAS A LONG, CHECKERED HISTORY AND FANFARE SURROUNDING INAUGURATION PRESUMABLY GOVERNMENT-ORCHESTRATED TO EMPHASIZE PROGRESS IS BEING MADE. END SUMMARY.

2. ON JULY 27 INDONESIAN PRESIDENT SUHARTO INAUGURATED THE STATE-OWNED STEEL PROJECT P.T. KRAKATAU STEEL AND AN ASSOCIATED PORT AT CIGADING WHICH IS DESIGNED TO SERVE KRAKATAU. FIRST STAGE OF KRAKATAU PROJECT IS DUE FOR COMPLETION IN 1979, AND CEREMONIES MARKED THE COMPLETION OF A STEEL ANGLES MILL WITH A CAPACITY OF 100,000 TONS/YEAR. A REINFORCING ROD MILL WITH A CAPACITY OF 150,000 TONS/YEAR HAS BEEN IN OPERATION SINCE BEGINNING '77. BOTH STEEL ANGLE MILL AND REBAR MILL ARE DEPENDENT ON BILLET AND IRON IMPORTED FROM AUSTRALIA.

3. KRAKATAU HAS A LONG, CHECKERED HISTORY HAVING  
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ORIGINALLY BEEN BEGUN WITH SOVIET ASSISTANCE IN 1962. SOVIET ASSISTANCE WAS WITHDRAWN IN THE AFTERMATH OF THE ABORTED COMMUNIST COUP IN 1965, AND THE PROJECT WAS QUIESCENT UNTIL 1972. THE PROJECT WAS RESUMED THAT YEAR UNDER THE AEGIS OF THE STATE-OWNED OIL COMPANY, PERTAMINA, AND PLAYED A CONSIDERABLE PART IN PERTAMINA'S FINANCIAL CRISIS IN 1975. BECAUSE OF THAT CRISIS, KRAKATAU WAS

REORGANIZED IN 1975, THE PROJECT WAS TAKEN OUT OF PERTAMINA AMBIT, AND THE VALUE OF FOREIGN EXCHANGE COMMITMENTS REDUCED FROM \$2.1 BILLION TO \$1.1 BILLION. IN 1976 FRG SIGNED A DM1.2 BILLION CREDIT TO SUPPORT PROJECT.

4. WITH COMPLETION OF PHASE I IN 1979 PROJECT IS TO PRODUCE MILLION TONS OF SPONGE IRON/YEAR WITH ONE-HALF TO BE SOLD AND REMAINING 500,000 TONS PROCESSED INTO BILLET. WITH COMPLETION OF PHASE IV IN 1985 PLANT WILL HAVE CAPACITY OF 2.2 MILLION TONS OF STEEL AND STEEL PRODUCTS/YEAR.

5. COMMENT: FANFARE SURROUNDING COMPLETION OF REBAR AND ANGLES MILL PRESUMABLY MEANT TO DRAW ATTENTION TO FACT THAT PROGRESS IS NOW BEING MADE ON A PROJECT WHICH AT ONE TIME APPEARED TO BE VERGING ON DISASTER.  
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## Message Attributes

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**Review Markings:**  
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